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# Resolving The Structural Paradox of Retail Transnational Corporations: A Case Study of Walmart in Latin America

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RESOLVING THE STRUCTURAL PARADOX OF RETAIL TRANSNATIONAL CORPORATIONS: A CASE STUDY OF WALMART IN LATIN AMERICA



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## ABSTRACT

This research focuses on the structural paradox of retail transnational corporations through a case study of Walmart in Latin America. The structural paradox is defined as the struggle to find a successful balance between localization and standardization efforts. Through the analysis of the failures and successes of Walmart in Latin America and supplemental examples of Walmart in other markets, I argue that intense localization efforts in areas with direct customer contact (front-end operations), as well as in areas without direct customer contact, like management and planning (back-end operations), are necessary in order to be successful in international markets.

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## Introduction

International business is a hot topic among professionals and academics alike. Research in this area concerns everything from why do businesses expand into international markets to how does an international business affect local economies, from international marketing strategies to international supply strategies, from the effects of business politics to the effects of social media. International business is studied by researchers from every academic background who apply different theories and methodologies for analyzing the phenomenon. Indeed, international business is an ever-growing field of scholarship.

This research concerns itself with a specific type of international business, the retail transnational corporation (TNC). Retail TNCs are an interesting research topic for several reasons. First, retail transnational corporations are distinct from traditional transnational corporations. Transnational corporations were initially concerned only with the production of goods, drawing natural resources and labor from countries with the lowest costs. These goods would then be marketed through independent local channels. Retail transnational corporations differ because these corporations interact directly with their international customers. While one could argue that transnational corporations have existed since the time of Spanish colonialism, retail transnational corporations have only risen to popularity in the last few decades (Wrigley and Currah 2006).

The direct involvement with international audiences makes for the most interesting research in retail TNCs. It is fascinating to see how these companies adapt (or fail to adapt) to different target markets and how subtle nuances in culture greatly impact the success of a business. Knowing what aspects of a company to adapt and how to adapt them are essential to success in a new market.

The dilemma between the need to localize certain business features to different international markets and the need to standardize other aspects throughout all divisions of the company is known as the structural paradox of retail TNCs (Aoyama 2007). This thesis attempts to add to the research of this dilemma by analyzing Walmart in Latin America. Through my analysis of Walmart's overall success in Latin American and additional analysis of Walmart's failures in other international markets, I claim that retail TNCs must be highly localized in aspects that directly interact with the consumer as well as many managerial and structural aspects that do not have direct customer contact.

I chose Walmart as a case study due to its enormous success in its domestic market and the extent of its international enterprises. The company has been a Fortune 500 company for many years and is currently ranked the number-two company on the 2012 Fortune 500 list (CNN Money). The company also has a broad international division. According to its own corporate website[1], Walmart currently operates over 10,770 units in 27 countries around the globe. I chose to focus on Latin America because Walmart's ventures into the region have become the company's greatest international success story. According to the 2012 rankings online at the Latin Business Chronicle[2], Walmart de México is the 11th largest Latin American firm by revenue. Walmart Brazil also breaks the top 50 largest firms, coming in at number 40, while Walmart Chile barely misses the "top 100" distinction with the ranking of 111th largest firm.

[1] http://corporate.walmart.com/our-story/locations
[2] http://www.latinbusinesschronicle.com/app/article.aspx?id=5693

Walmart's success in Latin America has not come without its mistakes and stumbles, and the company still has plenty of growing room in the region's overall market share. Nonetheless, Walmart's endeavors in Latin America have been the most prosperous international markets for what is arguably the most successful retail TNC in operation today. Even with its overall success, Walmart has not always been prosperous in all of its international endeavors, most notably in Germany and Korea. Walmart's divestment from these two countries offers many topics for analysis when placed in contrast to its success in Latin America. The information used for my presentation and analysis of Walmart is drawn from variety of sources, including popular media, scholarly journals, textbooks, and the internet. My analysis focuses heavily on Walmart's efforts in Mexico and Brazil because these have been the two most successful international markets for Walmart in Latin America. I also frequently contrast these successful efforts with unsuccessful international endeavors, such as those in Germany and Korea, to illustrate the effects of various localization and standardization policies.

Chapter I contains all of the theories and definitions relevant to my research. Here, I explicitly define the retail TNC as it is used in my work and offer examples of how it is different from a traditional TNC. In this chapter, I also present the concept of company image. I describe both the tangible and intangible dimensions of company image and discuss how time and culture affect the development and importation of company image. I close this chapter with a discussion of literal and metaphorical distances between a home and a host market and the importance of these distances in understanding the difficulties of international retailing and the structural paradox.

Chapter II is a short chapter describing the history of Walmart. I briefly describe Walmart's rise to power in the United States, then I proceed to more detailed history of Walmart's international operations in Latin America. In this timeline, I include method of market entries, partnerships, and acquisitions. This chapter is intended to serve as a time reference for my research and to provide understanding of Walmart's various partnerships.

In Chapter III, I describe areas that require intense localization. Merchandise selection and organization, while seemingly obvious, are confirmed as essential areas of localization through various examples. The need to localize management strategies is also discussed in this chapter. Finally, and perhaps most revealing about the demands of localization, I examine how Walmart was forced to make fundamental changes to stores operating under the Walmart name, as well as develop completely new names and formats with distinct company images. Through the concept of company image, I explain Walmart's fierce resistance to such extreme localization and demonstrate how these new company images were extremely beneficial to Walmart by allowing it to effectively target multiple socio-economic levels of the population.

In Chapter IV, I analyze aspects of Walmart that have required a mix of standardization and localization efforts. I discuss how the standardization of supply and distribution strategies combined with localization of suppliers and distribution centers has effectively helped Walmart offer goods at lower prices and institute the company's "Every Day, Low Prices" (EDLP) strategy. The EDLP strategy is included in the discussion of mixed localization/standardization efforts because it cannot be implemented in a market until other strategies are properly localized.

Chapter V discusses of what I call Walmart's "Go Big or Go Home" strategy in the United States. This is the only strategy that has consistently been an effective procedure in international markets. This strategy uses an overwhelming number of units in the market as a way to command high market shares, as opposed to strategies of superior goods or service. The high number of units also gives Walmart the power to create economies of scale and thereby, receive better prices per piece on merchandise. Also presented in this chapter are the ratios of population to the number of Walmart units in a market. The markets with low person to unit ratios match the markets in which Walmart has historically been successful, which provides support for the effectiveness of a high volume of units in a given market.

I conclude my research in Chapter 6 with a proposal for further growth in existing Latin American markets according to the data I have analyzed. I also propose other international markets, both in and outside of Latin America, as potential areas for expansion and the specificities about successful strategies for resolving the structural paradox in these areas. I conclude my work with my final thoughts and reservations about the research presented in this thesis.

## Chapter I: Theories and Definitions

The growth of international business has sparked much academic interest in the phenomenon. The meanings of terms "multinational corporation," "transnational corporation," and "international corporation" are extremely similar and the differences between them are still debated, and often misunderstood, in international business literature. This research uses the definition of transnational corporation provided by the United Nations Conference on Trade and Development:

> "A transnational corporation (TNC) is generally regarded as an enterprise comprising entities in more than one country which operate under a system of decision-making that permits coherent policies and a common strategy. The entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the others and, in particular, to share knowledge, resources and responsibilities with the others."

This research focuses specifically on the retail transnational corporation (retail TNC). Historically, retail companies were a local or, at largest, a national phenomenon. These smaller retailers were outlets for goods produced by large manufacturing TNCs. Retailers were mainly means for an international manufacturer to reach the consumer (Alexander and Doherty 2009). An example of this is Coca-Cola. Coca-Cola is a TNC according to the above definition. However, this company mainly uses local distributors, like gas stations and grocery stores, to reach its consumers. The retail TNC offers an interesting twist on the traditional TNC. Instead of importing/exporting a product, retail TNCs are importing/exporting a business, which includes products, but also includes store formats, operating procedures, business culture, and company values.

It has long been established that retail companies are more than just the physical spaces that they occupy and the tangible goods that they sell. Pierre Martineau conceptualized this idea decades ago in 1958 when he stated: "Clearly there is a force operative in the determination of a store's customer body besides the obvious functional factors of location, price ranges, and merchandise selection… this force is the store's personality or image – the way the store is defined in the shopper's mind…" [Martineau 1958].

Store image or company image can be hard to define. Image itself is a non-tangible company asset. However, it is constructed of tangible and non-tangible components. In short, store image is the holistic impression that people have of a single store or of a retail chain (*The New Penguin Business Dictionary*). It is how people perceive the company, taking into account everything thing they know and have experienced regarding the company. Company image encompasses the tangible and the intangible, the functional and the symbolic, the factual and the emotional. It is important to keep in mind that "image" includes, but is not limited to, visual image. Image includes what customers expect to find in terms of merchandise, value, customer service, management, company values, and a whole host of business dimensions. Many retailers focus heavily on developing and managing company image is an important aspect of business marketing. Often, this image is the main source of competitive advantage in the domestic market because many of the operative concepts of a retail operation can be easily imitated (Burt and Encinas 2000).

The role of image takes on new importance as retail companies enter international markets. The theory supported by much of the existing literature is that if a company has invested heavily in creating a successful image in the domestic market, the company will attempt to import this image into foreign markets. However, parts of image are developed over time through exposure and experience (Burt and Encinas 2000). Intangible aspects developed over time are impossible to immediately replicate in a new market. Also, image is created in the mind of the consumer; therefore, it must be developed according to the mental categories of the customer, which vary both individually and culturally.

There are other problems with attempting to export company image. Sometimes, even within the domestic market, there exist dissonances between management perception and consumer perception of store image. One would expect that as a company tried to recreate its domestic image in a foreign market, there would be a greater chance of dissonances between management and consumer perception due to cultural and behavioral differences (Burt and Encinas 2000). Some literature even suggests that cultural barriers are more important than technical obstacles in the retail internationalization process (Dupuis and Prime 1996).

Culture impacts every aspect of life (La Ferle, Edwards, and Wei-Na 2008). Symbols, color, form, words, and meaning vary from culture to culture. Differences in interpretation can lead to serious marketing blunders if the companies do not understand and appreciate these cultural variations (Melewar and Saunders 1999). Likewise, values, preferences, and expectations of consumers for a retail institution will vary by culture. Even business configurations, managerial structures, and trade organization are culturally influenced.

The need to overcome cultural obstacles versus maintaining a standard company image has come to be known as the structural paradox of retail transnational corporations.

In her study of Carrefour and Walmart in Japan, Yuko Aoyama (2007) provides the most cited definition of the structural paradox: "The structural paradox in retail TNCs lies in the balance between their objective in enforcing standardization (at the supra-national level) and the need to conduct localization (at the sub-national level) to ensure customer acquisition." The idea is that an under-localized retail TNC will not gain consumer acceptance while an over-localized TNC will lose its image so completely that it loses its reason to exist in the market.

Aoyama also goes on to say that retail TNCs must establish themselves in new markets and understand local "cultures of consumption" quickly and to a greater degree than production TNCs. Aoyama points out that simple cosmetic changes to a product are often enough for a manufacturing-based TNC to be accepted in a foreign market but such shallow changes rarely work for retail TNCs. The distribution nature of retail TNCs requires the company to quickly embed itself in market society, networks, and territory. To repeat the earlier example, a retailer must understand and address cultural dissonances quicker and to a greater degree than a product-based TNC, like Coca-Cola. In Spain, Coca-Cola had to change the packaging of its product from two-liter bottles to smaller units, because many Spaniards did not have refrigerators large enough to accommodate the bottles (Ricks 1993, 27). The product itself and the company image did not change. However this superficial packaging change was an effective solution to the problem. If Walmart wanted to enter Spain, such simple change would not be effective, because Walmart would also have to understand and address a host of obstacles, including differences in customer expectations of product assortment, store format, and business procedures.

The structural paradox developed by Aoyama (2007) indicates that areas with direct contact with the consumer to be heavily localized to gain customer acceptance, while management and supply operations usually need to remain more standardized to maintain cost efficiency. She does concede in her conclusion of this work that in the case of Walmart and Carrefour in Japan, both front-end and back-end operations were localized to elevated degree. However, Aoyama does not argue that both these areas need to be localized. Using her structural paradox of retail TNCs, I go on to argue in this research for the necessity of localization in all areas of business operations.

The book *Golden Arches East* (Watson 1997) investigates this paradox in-depth by exploring McDonald's in East Asia. In this work, it is often stated that the people of East Asia see McDonald's as an international experience. Standardization of the menu items, especially French fries, and U.S. requirements for sanitation are part of what makes McDonald's so popular in East Asia. However, this research also highlights the high degree of localization of McDonald's, like conscious efforts to make the restaurants suitable for Chinese rituals surrounding birthdays and events, and participating in local school events. McDonald's also emphasizes the 50/50 partnership with a Chinese owner in order to present itself as a Chinese business. This suggests that even if standardization is deliberate in an attempt to create a sense of an international adventure, there is still a significant degree of localization required to be successful in foreign markets.

A final, important theory regarding international business is distance, but not solely physical distance. In Chapter 2 of his book, Ghemawat outlines what he calls the CAGE distances. He discusses the importance in understanding distance between the home market and host market in terms of cultural, administrative/political, geographic and economic distances (CAGE). To illustrate the importance of understanding these distances, Ghemwat also uses Walmart as a case study. He claims that because Walmart initially tried export carbon-copy models of the domestic business, the company has been more successful in retail sales in the markets that are "closer" to the US in two or three types of distance. Mexico and Canada are both geographically close to the US market and administratively close to the US market thanks to the North Atlantic Free Trade Agreement. While the UK is further geographically from the US, it is closer in terms of cultural distance, administrative/political distance and economic distance. Ghemwat closes by pointing out that sometimes Walmart is able to exploit certain home/host market distances. For example, Walmart was able to keep manufacturing costs low on merchandise to by exploit the economic distance between the US and China. The company also later exploited economic distances in Mexico in order to keep labor costs low in distribution centers and stores.

The structural paradox of retail TNCs can be a tricky dilemma to resolve. When viewed through the four CAGE distances, no two home/host market pairs will ever have the exact same relationship. However, I argue that very similar markets within a region will have similar overall distances, and therefore, research into the structural paradox in Latin America is still valid. Latin American countries share a long history of Spanish Colonialism and immigration in the 19th and 20th centuries (Prevost and Vanden 2011, 9). The region also shares a culture defined by European values and social institutions mixed with indigenous and slave cultures (Ibid., 113). Similar histories and cultures will make for similar cultural distances from a host market. Latin American countries also share many other factors that are useful for developing a business plan, like growing urbanization (Ibid. 13), and similar distributions of wealth (Ibid., 118). These economic and social similarities will create similar political and economic distances. Similarities such as these do not mean that an *identical* plan for one Latin American country could be directly implemented in another. However, these similarities throughout the region indicate that the cumulative effects of the CAGE distances for each market in the Latin America will be similar enough that general strategies of localization and standardization are applicable throughout the region.

Throughout my analysis of Walmart in Latin America, I frequently refer back to effects of the CAGE distances on the standardization/localization paradox of retail TNCs and their effects on the success or failure in a given market. I also use these theories in my conclusion as I suggest areas for international growth and discuss my reservations about my research.

## Chapter II: Just the Facts: A Timeline of Walmart in Latin America

Walmart's domestic growth has been continual and rapid since Sam Walton opened store one in 1962. However, the company's international expansion has occurred in starts and stops since its first international endeavors in 1991. Even growth within a single foreign market, rarely has the company grown at a smooth, constant rate. To complicate the company history even more so, much of Walmart's entry and expansion in a country is created through a complex set of partnerships and acquisitions. Therefore, this short chapter is intended to provide a historical reference for the discussion of various Walmart policies and their effectiveness. All information was taken from "Our Locations" at Walmart's corporate website[3], unless otherwise noted.

Sam Walton opened the first Walmart in Rogers, Arkansas, in 1962. Within five years, his company had grown to 24 stores with over 12 million dollars in sales a year. In 1971, Walmart opened its headquarters in Bentonville, Arkansas, where the company still operates from today. Within ten years of the first store, the brand had grown to over 50 units. With growth came the use of new technology. In 1983, Walmart replaced cash registers with computerized point-of-sale systems and in 1987, the company installed the largest private satellite communication system in the U.S. The next year, Walmart opened the first supercenter in Washington, Missouri, and by 1990, Walmart was the number one retailer in the United States. Walmart went international when the company entered the Mexican market in 1991, followed by entries into Canada (1994), China (1996), U.K.

[3] http://corporate.walmart.com/our-story/locations

(1999) and dozens of other markets. The company now employs 2.2 million associates and operates over 10,000 stores in 27 different countries.

Mexico, Walmart's first foray into international retailing, has been the company's greatest international success story. The first Sam's Club opened in 1991 in Mexico City through a partnership with CIFRA, Mexico's largest retailer at the time (Agren and Ogier 2011). The partnership between Walmart and CIFRA continued to grow over the next several years. In 1997, Walmart acquired a majority holding in CIFRA and, in 2000, changed the company name to Walmart de México, better known as Walmex. Walmart de México continued to grow and became so successful that in 2009, the company acquired its sister branch, Walmart Centroamérica. The company is now known as Walmart de México and Central America. Walmart currently operates 2,354 units under 11 different names in Mexico.

Walmart entered the markets of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica simultaneously through the acquisition of another retailer. In 2005, Walmart acquired a 33% interest in Central American Retail Holding Company, which was part of the Dutch retailer Royal Ahold. A year later, Walmart increased its interest to over 50% and changed the company to Walmart Centroamérica. In the six countries of the original Walmart Centroamérica, the company currently operates 443 retail units.

In Brazil, Walmart again entered the market through a joint venture, this time with Lojas Americanas (Thomas White International 2012). In 1995, Walmart opened two supercenters and three Sam's Clubs in São Paulo. Initially the company struggled in the Brazilian market, only opening 25 stores in the first ten years (Landler and Barbaro 2006). In 2004, Walmart acquired 118 Bompreço stores in the northeast region of Brazil from the same Dutch retailer, Royal Ahold (Dolan 2004). This acquisition catapulted Walmart to the country's third largest retailer. Just a year later, Walmart acquired 140 stores in the southern region from the Portuguese retailer Sonae (Birchall 2005). The company continued to expand all its various brands in Brazil through organic investment. Walmart now operates 561 units under nine different names in Brazil.

Walmart also entered the Argentine market in 1995. This time the company entered via greenfield[4] ventures, beginning with a Sam's Club and Supercenter. The company continued expanding through greenfield stores but with little reward. In 2000, the company decided to abandon the Sam's Club format in Argentina. Supercenter success has also remained slow in the country. After ten years since its market entry, Walmart had only opened 13 stores (Mahajan-Bansai 2009). However, the Changomas and Changomas Express discount formats, introduced by Walmart in 2007, have been exceptionally more successful (Roberts and Berg 2012). To date, Walmart operates 94 units in Argentina, of which almost two-thirds are Changomas formats.

The most recent market entry of Walmart in Latin America was in Chile in 2009. Walmart bought a controlling interest in Distribución y Servicio (D&S), who was at the time Chile's leading grocer and third-largest retailer (Boyle 2009). Walmart's approach in Chile has been significantly different than in other Latin American markets. Since 2009, the company has yet to convert any units to a Walmart name and format or to open any new stores under the Walmart name. The company has also developed a major

[4] Greenfield sites are the locations for new buildings, i.e. buildings from "completely green fields." This allows businesses to build to purpose instead of trying to remodel existing properties (*The New Penguin Business Dictionary*).

financial services sector. Its most notable success is the Presto credit card, which has 1.6 million users. Walmart currently operates 330 units in Chile under 6 different names.

Since entering the retail market in Latin America in 1991, Walmart has grown to include 3,992 retail units. Operations in the region have expanded into nine different Latin American countries and include units under 38 different names. Despite its errors in these markets, Walmart's growth has been much more successful and widespread in Latin American than any other region of the world that the company has entered.

## Figure 1: A Brief Timeline of Walmart's Global Expansion[5] [6]

- **1962**: July 2 – The first Walmart opens in Rogers, Arkansas.
- **1967**: Walmart has grown to include 24 stores.
- **1971**: Walmart's Home Office opens in Bentonville, Arkansas.
- **1983**: First Sam's club opens in Midwest City, Oklahoma.
- **1983**: Point-of-sale units replace cash registers.
- **1987**: Walmart installs the largest private satellite communication system in the United States.
- **1988**: The first Walmart Supercenter opens in Washington, Missouri.
- **1991**: Walmart enters its first international market, Mexico, through a joint venture with the local retailer CIFRA.
- **1994**: Operations begin in Canada with the acquisition of 122 Woolco stores.
- **1995**: Walmart opens five units in São Paulo through a joint venture with Lojas Americanas.
- **1995**: Walmart opens retail units in Argentina, without the aid of a local partner.
- **1996**: Walmart de México becomes the largest retailer in the country.
- **1997**: Walmart acquires a majority stake in the Mexican retailer CIFRA.
- **1997**: Walmart purchases the 40 percent minority interest in its joint ventures from Lojas Americanas
- **1997**: The acquisition of the Wertkauf hypermarket chain in Germany becomes Walmart's first international attempt in Europe.

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[5] Information regarding events before 1990 was taken from Walmart's Corporate website, accessed on April 22, 2013 via http://corporate.walmart.com/our-story/heritage/history-timeline. Information regarding events after 1990 was taken the appendix of *Walmart: Key Insights and Practical Lessons from the World's Largest Retailer* by Natalie Berg and Bryan Roberts (2012).

[6] The events listed are limited to the markets discussed in this research.

- **1998**: Walmart acquires 21 retail units from Makro Korea and enters the South Korean market.

- **1999**: Walmart acquires an additional 71 retail units from Interspar in Germany.

- **1999**: The United Kingdom becomes Walmart's second attempt in the European market when the company acquires ASDA.

- **2000**: CIFRA in Mexico is changed to Walmart de México (Walmex).

- **2002**: Walmart acquires a small minority stake in Seiyu in Japan.

- **2004**: Walmart Brazil grows with the acquisition of 118 Bompreço stores from the Dutch retailer Royal Ahold.

- **2005**: Walmart purchases a 33.3 percent interest in CARHCO from Royal Ahold, thereby entering the markets of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica.

- **2005**: Walmart Brazil expands again with the purchase of 140 Sonae stores.

- **2005**: Walmart acquires a majority interest in the Japanese Seiyu company.

- **2006**: Walmart increases its holding in CARHCO in Central America to 51 percent and changes the company name to Walmart Centroamérica.

- **2006**: Walmart divests from South Korea by selling its 16 units to Shinsegai.

- **2006**: Walmart also divests from Germany by selling its units to Metro.

- **2007**: The first Changomas format is opened in Argentina.

- **2007**: Seiyu in Japan becomes 91 percent owned by Walmart.

- **2008**: Seiyu becomes fully owned by Walmart.

- **2009**: In Chile, Walmart purchases a majority claim in D&S, the country's leading food retailer.

- **2009**: Walmart de México absorbs its sister subsidiary Walmart Centroamérica.

**Table 1: Walmart Brands in Latin America by Country**[7]

| Retail Unit Name | Number of Units |
|---|---|
| **Argentina** | |
| **Total Retail Units** | **95** |
| Walmart Supercenter | 30 |
| Changomas | 41 |
| Changomas Express | 10 |
| Mi Changomas | 10 |
| Walmart Supermercado | 4 |
| **Brazil** | |
| **Total Retail Units** | **561** |
| Walmart Supercenter | 55 |
| Sam's Club | 27 |
| Todo Dia | 175 |
| Supermercado Todo Dia | 2 |
| HyperMarket | 38 |
| SuperMarket | 61 |
| Magazine | 1 |
| Mercadorama | 21 |
| BIG | 42 |
| Maxxi | 60 |
| Nacional | 68 |
| Gas Station | 11 |
| **Chile** | |
| **Total Retail Units** | **331** |
| Lider Hiper | 72 |
| Lider Express | 64 |
| Acuenta | 66 |
| Ekono | 127 |
| Revive | 1 |
| El Buen Corte | 1 |
| **Costa Rica** | |
| **Total Retail Units** | **208** |
| Maxi Pali | 20 |
| Max X Menos | 29 |
| Walmart Supercenter | 8 |
| Pali | 151 |

[7] Information taken from Walmart Corporate Website accessed on April 22, 2013, via: http://corporate.walmart.com/our-story/locations.

**Table 1 Continued: Walmart Brands in Latin America by Country**

| | |
|---|---|
| **El Salvador** | |
| **Total Retail Units** | **80** |
| Despensa Familiar | 51 |
| La Despensa de Don Juan | 25 |
| Walmart Supercenter | 2 |
| Maxi Despensa | 2 |
| **Guatemala** | |
| **Total Retail Units** | **205** |
| Paiz | 30 |
| Walmart Supercenter | 7 |
| Despensa Familiar | 143 |
| ClubCo | 1 |
| Maxi Despensa | 24 |
| **Honduras** | |
| **Total Retail Units** | **73** |
| Paiz | 6 |
| Walmart Supercenter | 1 |
| Dispensa Familiar[8] | 53 |
| Maxi Despensa | 13 |
| **Mexico** | |
| **Total Retail Units** | **2,360** |
| Walmart Supercenter | 227 |
| Sam's Club | 142 |
| Bodega Aurrera | 413 |
| Mi Bodega Aurrera | 258 |
| Bodega Aurrera Express | 759 |
| Superama | 90 |
| Suburbia | 100 |
| VIPS Restaurants | 265 |
| El Porton | 92 |
| Ragazzi | 7 |
| Farmacia Walmart | 7 |
| **Nicaragua** | |
| **Total Retail Units** | **79** |
| Pali | 62 |
| La Unión | 8 |
| Maxi Pali | 9 |

[8] Dispensa Familiar is spelled here with an "i" in Walmart's information.

## Chapter III: Aspects of Localization

### Introduction

My research has shown that extreme localization in company image is the most successful policy in retail TNC business strategy. In fact, ASDA, one of Walmart's most successful brands in a single international market, is so localized that most British consumers believe it is a British company (Hugill 2006). To support my claim for extreme image localization, the final section of this chapter illustrates how Walmart's performance in several Latin American countries improved once it finally let go of its standardized big-box format and Walmart derivative names. My research has also revealed that there are many areas which do not have direct contact with the consumers that must also be localized. Section six addresses the need to localize business strategies. I discuss the resistance of Walmart to incorporate unions as a strategic point of failure in Germany and the use of corruption as an importance source of success in Mexico. Additional points of localization, including merchandise, values, and management, are addressed throughout this chapter.

### Merchandise Selection

When faced with the challenge of the localization/standardization paradox, merchandise seems like the obvious place to begin localization efforts. To be successful, a retailer needs to sell things that people want to buy. Unfortunately, in Walmart's first years of international retailing, the company frequently did not pursue adequate merchandise research and localization efforts. In its first international expedition, Mexican Walmarts stocked many goods that were rarely used by Mexicans, including ice skates, fishing tackle, riding lawn mowers and clay pigeons used in skeet shooting. To get rid of unpopular merchandise, managers would deeply discount the items, only to have the automated inventory systems in Arkansas order more (Luhnow 2011). Walmart also initially refused to acknowledge Mexican consumers' preference for buying Mexican made products and insisted on selling American imported goods (White 2002, 7). Similar blunders were repeated when the company entered Brazil in 1995. For example, the company stocked American style "footballs" instead of Brazilian "futeballs" (soccer balls) (Ghemawat 2007, 107).

Fortunately for the company, these mistakes were committed early and remedied quickly. In Mexico, poor moving products were replaced with more popular items, like uniforms and bakery goods (Luhnow 2011). Walmart began purchasing more from national suppliers, which helped the company better meet the merchandise expectations of Mexican consumers, as well as lower logistics costs. As of 2011, 87 percent of goods sold in Mexican stores came from Mexican suppliers (Argen and Ogier 2011). In Argentina and Brazil, stores now dedicate twice the square footage to selling grocery products than their domestic counterparts (Dolan 2004). In Chile, where some retailers generate up to 70% of their profits from financial services, Walmart has emphasized offering those services and its Presto Credit card (Boyle 2009).

Once Walmart understood the necessity and advantages of merchandise localization, the company decided to take it a step further than simply localizing merchandise by country. Walmart has begun opening formats localized to different social grades. Superama supermarkets target higher income consumers in chic neighborhoods by stocking merchandise like special desserts and maintaining upscale displays. Whereas Bodega Aurrera stores target lower socioeconomic grades, with no-nonsense stores, discounted prices, and basic goods (Zimmerman 2006). The Bodega format has been so successful that Walmart has exported the concept to Brazil, renamed as Todo Dias, and to Argentina, renamed as Changomas (Berg May 2011). Walmart has even begun to import socioeconomic and sub-culture localization to its U.S. stores. For example, in Evergreen Park, Illinois, Walmart recently opened a store in which the apparel section caters to the predominantly African-American population of the area. In Plano, Texas, the Walmart store is stocked heavily with electronics and staffed with technology specialist to attract the more affluent consumers in the area (Zimmerman 2006). This phenomenon is an interesting twist in the localization/standardization paradox because it is rare that a concept developed in a foreign market is imported into the domestic market.

In addition to localizing merchandise selection in stores, in Brazil, Walmart has even localized the selection online to represent the higher-socioeconomic status of online shoppers in the country (Berg Dec 2012). While this strategy has been moderately successful, the company will have to be conscious of the growing lower and middle class access to e-commerce. According to an article by Anna Heim at The Next Web[9], an e-commerce watch group, e-commerce is growing in Brazil by about a 25% a year and likely to continue significant growth as infrastructure of the country improves and the price of technology declines.

[9] http://thenextweb.com/la/2011/08/29/how-e-commerce-is-growing-in-brazil/

Merchandise Organization

In addition to merchandise selection, merchandise organization must also be localized. Anthropological theory speaks in terms of emic categories (insider perspective) and etic categories (outsider perspectives) (Erickson and Murphy 2008, 138). Understanding the emic categories of a market is essential to understanding how a retail unit should be structured. However, in international marketing scholarship, merchandise organization has been largely ignored or only briefly mentioned in discussions of merchandise assortment.

Even though the concept of merchandise organization is frequently overlooked in the scholarship, Walmart seems to have considered it, at least in Brazil. Walmart's department divisions on its Brazilian website[10] almost mirror the departments of Pontofrio's website[11], a Brazilian retailer whose online operations is managed by the second largest Brazilian and Latin America e-commerce company. The only differences between the two websites' merchandise organization are where Walmart added four of its own divisions and lost two of Pontofrio's divisions. The divisions also are in alphabetical order, unlike the departments on the domestic website[12].

Walmart has not taken this approach to organization localization in its other Latin American markets. However, this is not surprising because Walmart developed online retail operations in Mexico, Argentina, and Chile several years later than in Brazil. Therefore, the company has had less time to develop its online presence. Also, Brazil has been and remains a priority for Walmart in the region.

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[10] http://www.walmart.com.br/
[11] http://www.pontofrio.com.br/
[12] http://www.walmart.com/

Localization of Walmart Stores

In addition to localizing what is sold, Walmart also had to localize the physical spaces that it is sold in. The company needed to modify its stores and surrounding structures to accommodate the expectations of consumers in various markets. Eventually, Walmart localized to such a high degree that it created completely new brands and has been very successful with these "non-Walmart" stores. A discussion of other Walmart brands follows later, but here I would like address several localization efforts within the original Walmart format that were necessary in order for the company to be successful.

In Mexico, Walmart originally tried to import carbon copies of its domestic stores. Imagine the surprise when every afternoon, all of the shopping carts were piled up at the extreme end of the parking lot. Walmart failed to research its target consumer and foresee that most Mexicans did not own cars and would take the bus to the market. Hence, instead of carts being returned to the corrals, they all ended the day near the bus stop (Mahajan-Bansai 2009).

In Mexico, Walmart was able to compensate for the lack of personal vehicles in the consumer base, only to repeat to this lack of anticipation the in the German and Korean markets, where the company divested in 2006 (Landler and Barbaro 2006). The big box format of domestic Walmart stores requires large areas of free land, which is not available in many city centers. Walmart frequently built on the outskirts of town, making trips to the store inconvenient for people without a vehicle.

Other necessary changes include losing a door in stores in Argentina and Brazil to reduce the confusion of customers (Dolan 2004). In Korea, Walmart originally imported its high shelving systems, which were significantly taller than what customers were comfortable with and often required the use of ladders. Also, Korean customers found the bare-boned designed stores unappealing in contrast with other highly decorated merchants (Landler and Barbaro 2006).

## Consumer Values

Company values are part of the non-tangible dimensions of store image. In almost every market Walmart operates, low prices are the primary value promoted by the company. However, in some instances, consumers are significantly concerned with other values as well. For instance, eco-friendliness concerns are on the rise in the minds of U.S. and even more so in Brazil. According to the 2011 Global Green Brands Study by Landor Associates, Brazilian consumers were significantly more concerned about green issues than their U.S. counterparts. For example, when asked to rank a set of company characteristics according to importance, environmental consciousness ranked 5$^{th}$ for Brazilian consumers, while it ranked 7$^{th}$ for U.S. consumers. Also, almost half of the Brazilians surveyed said they would be willing to pay 10% more for a product that was eco-friendly, and only 18% said they would not be willing to pay more. Of the U.S. respondents, only a third would pay 10% more, while 47% would not be willing to pay any extra. Not surprisingly, Brazilian consumers are especially concerned about deforestation, which the survey revealed to be the most important issue to consumers by a large margin. These are only a few of the statistics provided by the Global Green Brands Study that suggest Brazil may be coming to the forefront of the global green debate.

Due to the high concern of Brazilian consumers about green products, it would make sense that Walmart would try to build a more environmentally conscious image in

Brazil than in its domestic market, which is exactly what the company has done. In 2009, Walmart Brazil organized a Sustainability Summit where the company introduced new eco-friendly obligations across its supply chain, with emphasis on rainforest protection. These mandates forbade soybeans sourced from illegally deforested areas and beef sourced from newly cleared Amazon. The summit also revealed a goal to reduce the usage of plastic bags by 50% by 2013 (Winston 2009). For their efforts in Brazil, the Corporate Eco Forum, an international business association dedicated to environmental business issues, awarded Walmart Brazil and its CEO Hector Nunez the first ever C.K. Prahalad Award for Global Sustainability[13].

Whether or not Walmart's green initiatives have been successful or if the company is actually concerned with eco-friendliness is not essential to the research here. What is important is that Walmart has attempted to localize its company image in Brazil to match the consumer values in the country.In Walmart's 2011 annual report[14], president and CEO Michael Duke claims, "We [Walmart] continue to play an even bigger leadership role on the social issues that matter to our customers." Clearly the company has recognized the importance of localizing company values. What is interesting is that while the claim of addressing "social issues that matter to our customers" is mentioned, specific social issues are not. This gives the company the appearance of social awareness without committing them to a specific cause, which allows important social issues to change according to different markets.

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[13] http://www.corporateecoforum.com/conference/ck_prahalad_award.php

[14] http://www.walmartstores.com/sites/annualreport/2011/financials/Walmart_2011_Annual_Report.pdf

Management

Many of the early errors in localization could have been prevented if Walmart had utilized local and existing management. Local managers are invaluable resources in understanding the correct local product mix and what levels of dissonance between expectations and reality the consumers will accept. In the early days in Mexico, had Walmart utilized the knowledge of the local store managers, it could have saved themselves many headaches and avoided costly errors with product mix.

Management above store managers, that is to say, managers who will not have direct contact with the consumer, must also be localized. Localized upper management will have a greater understanding of the supply networks and policies in a given place. They will also speak the language of the suppliers, whereas managers installed from the US will have great communication difficulties. As absurd as it sounds, the head of Walmart in Argentina frequently held meetings with suppliers in English, even though nearly all of them spoke only Spanish (Dolan 2004).

In Latin America, Walmart was able to quickly understand the value of local management. Store and regional managers were given more autonomy (Boyle 2009) and the company executives in Latin America are fluent in Spanish or Portuguese (Dolan 2004). In contrast, one of the reasons cited for Walmart's failure and eventual divestment in Germany is its lack of understanding of local business practices. Walmart is notoriously anti-unionist and US managers failed to realize the extensive role unions play in German management (Christopherson 2006).

The company seems to finally fully appreciate the value of using local management and existing management in acquired brands. In Walmart's most recent

Latin American acquisition, D&S of Chile in 2009, illustrates the company's more eager policy of utilizing localized management. D&S began as a family-owned company in 1957 by Ibáñez Ojeda and was expanded by his sons Felipe Ibáñez Scott and Nicolas Ibáñez Scott. According to Walmart's corporate website, the two brothers still remain active in the affairs of the company[15]. While it is still rather soon to speculate on the long-term success of Walmart in Chile, the outlook for the company is positive. After just three years in the Chilean market, Walmart commanded 34 percent of the retail market (Lutz 2012).

Business Strategies

Some business strategies that I discuss later in Chapter IV and V have been standardized with moderate success, including the EDLP pricing and supply strategies. However, there are a few business strategies that the Walmart case study shows must be localized in certain situations.

For example, in countries that are highly unionized, Walmart must relax its extreme anti-union position. Of course, Walmart must abide by whatever laws exist in a country regarding unions. However, in the German case, unionization is such a strong ideal, that Walmart should have gone beyond the legal requirements in order to create a reliable workforce. In their study, Goerke and Pannenberg (2004) suggest that unionization in Germany is driven by social/cultural norms more than legal requirements or even benefits from the union. Walmart's refusal to work within the expectations of German management practices eventually resulted in employees picketing stores

[15] http://corporate.walmart.com/our-story/locations#/chile

(Christopherson 2006). Only then did the company engage in cooperation with unions reluctantly and in limited capacity. Walmart has also been criticized in the UK, where it has been equally unwilling to work with unions in the ASDA chain. However, last year the company made a monumental agreement with the GMB union that addressed job security, skill development, and health and safety (Jones 2012). This type of agreement is unprecedented in company history.

While Walmart was extremely opposed to localizing its business strategies to include unions, the company was not so reluctant to localize business strategies when it believed local methods would be very beneficial to accomplishing various goals, like acquiring prime real estate for new stores. According to a lengthy expose and follow up piece published in The New York Times[16] [17], Walmart was quick to localize to the corruption and bribery common in the Mexican business and political worlds. With mass amounts of capital at its disposal, Walmart was perfectly situated to take advantage of these less than honest tactics, and the company effectively used these methods in Mexico.

In his expose, journalist David Barstow lays out a variety of bribes conducted by Walmart. He explains how Walmart de Mexico bribed an official to change the zoning map near the ancient pyramids in Elda Pineda in order to build a store in an area that is very tourist-heavy. He also cites instances of officials being bribed to give permits, hurry permit approvals, or even to avoid procuring permits at all. In his reports, Barstow quotes former executives and lawyers as he lays out how Walmart Corporate refused to conduct

[16] http://www.nytimes.com/2012/04/22/business/at-wal-mart-in-mexico-a-bribe-inquiry-silenced.html?pagewanted=all&_r=0
[17] http://www.nytimes.com/2012/12/18/business/walmart-bribes-teotihuacan.html?pagewanted=all.

a full investigation after a former Walmart de Mexico lawyer contacted Bentonville headquarters and how neither US nor Mexican law enforcement were notified.

Even with various arguments for improvement in the Mexico, the fact is the country remains very corrupt. Transparency International[18], a global corruption watch-group, ranks Mexico the 105th most corrupt country out of 176 analyzed countries. The group also gave them a transparency score of 34 out of 100, with 0 being the completely corrupt and 100 being completely clean. The group uses a variety of sources to analyze and rank countries, including public surveys, information from the 2011 OECD Anti-bribery Convention and other outside sources.

My goal by using this example is not to condemn Walmart on any grounds of immorality. Nor is my goal to completely absolve any legal guilt of the company with statistics about corruption in Mexico. My point here is that corruption is the local way of doing business and Walmart was very successful using local business strategies. Barstow claims that Walmart was not a "reluctant victim" of a culture even he concedes demands bribery but that the company "was an aggressive and creative corrupter." Barstow's accusations of eager cooperation illustrate the company willfully localizing business strategy, and it is hard to dispute the company's overall success in Mexico. It is also essential to point out that this area of localization has no direct contact with the consumer, which is why it is relevant to my overall claim that localization efforts must go beyond front-end localization.

Unfortunately for the Walmart de Mexico, even if Walmart Corporate was going to look the other way and even if Mexican officials were willful participants, the

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[18] http://www.transparency.org/country

company still has to answer to the US authorities about any violations of the Foreign Corrupt Practices Act (FCP Act). The FCP Act is a federal law that makes it a crime for American Corporation OR its subsidiaries to bribe foreign officials (Barstow Dec. 2012). Legal investigations in the US and in Mexico have been launched and Walmart Corporate has "re-launched" its own international investigation. On December 17, 2012, Walmart's Corporate website added a lengthy webpage[19] which outlines new procedures to combat corruption and links to the company's official statement about the allegations of the *New York Times*. Even though this case provides a great example of utilizing local business strategies, bribery and corruption are perhaps not the way an international company should precede, especially if it has to answer to domestic laws regarding these issues.

Losing the Walmart name and Format

Over the course of 30 years, Walmart had invested millions of dollars in research and market management in order to create and fine-tune a successful domestic company image. To create whole new images in each new country would have required millions more in research and marketing, but why waste the resources if the domestic company image was already successful. In 1994, the company released the statement, "we are confidant that the Walmart concept is 'exportable'" (Roberts and Berg 2012, Appendix). So just as the scholarship about company image suggests the company would do, Walmart initially tried to export carbon copies of its stores.

By and large this attempt failed. In Mexico, domestic brands faired decently, growing to 227 Walmart Supercenters and 142 Sam's Club since 1991. However, the

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[19] http://news.walmart.com/walmart-global-compliance-action-steps

three Bodega Aurrera formats in Mexico grew to a total of 1,430 units, almost quadruple the number of domestic Walmart formats, since 1992. In 1995, Walmart attempted to export its format and image to Brazil and Argentina and the results were dismal at best (Dolan 2004). This is not just a Latin American phenomenon. Almost everywhere that Walmart has operated under its domestic name and format, the company has done poorly. Canada is the only market where direct image exportation has been successful.

The essential international marketing theory Walmart forgot to account for in these instances was distance. In Mexico, Brazil, and Argentina, Walmart completely ignored cultural distance. Mexico, however, is closer in terms of geographic distances and administrative/political distance thanks to the North Atlantic Free Trade Agreement (NAFTA), which explains why the company initially faired better in this market than in other Latin American markets. Canada's success is also frequently attributed to lack of distance from Walmart's domestic market. Considering all of Walmart's 26 international markets, Canada is closest to the US in cultural, administrative/political, geographic and economic terms of distance.

Walmart finally grew in Latin America after it loosened its grip on the domestic image. In 2004, Walmart acquired a total of 258 stores in Brazil from other corporations. None of these units were converted to a Walmart name derivative or format. In Mexico, Walmart is responsible for around half of the retail market share thanks to its 11 different names and formats, i.e. 11 different images.

Obviously, not standardizing newly acquired new brands like the company did in Mexico and Brazil allows the company to appear extremely local. Beyond the advantages of appearing local, the company is able to use its multiple brands and images to target different socioeconomic segments of the market. For example, in Mexico, the Superama brand/image targets the socioeconomically higher portions of society while the Bodega Aurrera brand/image targets the socioeconomically lower portions of society. Had Walmart standardized one brand into the other, it would have lost part of population as potential consumers.

Walmart finally seems to have realized these advantages and incorporated them into its international business strategy. In Argentina, the company launched, not acquired, the new brand Changomas, which is a compact, high discount hypermarket and supermarket line aimed at lower income consumers in areas that cannot accommodate a large box format supercenter. Also, since Walmart Centroamérica acquired the Dutch retailer CARHCO in 2006, the company has only opened a total of 17 units in all five countries under the Walmart banner. In the most recent market the company has entered, Chile, four years of operations has yet to produce a single unit under the Walmart banner.

## Conclusion

In this chapter I have illustrated the need for extremely intense localization in areas that directly contact the consumer such as merchandise, the format of the retail unit, and even the brand of the retail unit. I've also discussed localizing company values to meet consumer values, which is important in developing an appropriate store image in a market but often does not have physical contact with the consumer. Other areas like management and business strategies have little or no contact with consumers in the retail unit, but they too must be localized in order to operate effectively in an international market.

## Chapter IV: Mixed Efforts

Introduction

"Mixed efforts" are those business strategies which in general are fairly standardized to their domestic counterparts but cannot or should not be identically implemented in foreign markets and require at least some level of localization. This chapter contains discussions of the information systems and technologies of Walmart, the use of distribution centers, and supply/buyer relationships and the EDLP pricing strategy.

Information Systems

Walmart has been rightfully praised for the innovations and efficiency of its supply and distribution techniques. In fact, managing logistics is often cited as an vital source of Walmart's success (Roberts and Berg 2012, pgs. 121-136). The logistics technologies and strategies developed by Walmart have proven effective in markets where the company has been able to introduce them.

In order to properly stock a retail unit, a company needs to understand what merchandis is selling at what prices during what points in the year. Getting a clear command of this information can sometimes be difficult within a single unit. One can only imagine what analyzing the sales of over ten thousand units would require. The responsibility of analyzing this enormous amount of data falls Walmart's information systems division. According to the Technology Careers page[20] at the company's corporate site. Walmart runs the world's largest non-governmental databases and employs over 5,500 people in its IT division.

Walmart revolutionized one of the most unappreciated information systems still used in the market today, the universal bar code. While Walmart didn't actually create the idea of a bar code, the company was the driving force behind an industry wide standard in barcoding. After the implementation of the universal barcode, Walmart became especially adept at exploiting the system to gather information. In the mid 2000's Walmart began the push for manufacturers to use radio frequency identification technology (RFID). The general idea is similar to the barcode, but RFID tags can hold much more data[21].

While the use of many of these technologies has been standardized across most of the markets, I consider the information technology systems to have both standardized and localized parts. Referring back to Walmart's first international foray, Mexico, the company relied heavily on the automated inventory systems in Bentonville, Arkansas. Without consideration for local merchandise preferences, the system would restock items that Mexican store managers had discounted and struggled to sell (Luhnow 2011). It was only once these information systems were adjusted to account for the local preferences that international divisions could profit from the use of these techonologies. Walmart acknowledge the need to used domestically designed technology in a localized manner. According to the company, of Walmart's 5,500 plus IT employees, over 2,000 of them operate in foreign markets.

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[20] http://careers.walmart.com/careers-in-technology/
[21] http://money.howstuffworks.com/walmart.htm

Distribution Centers

Another highly praised aspect of Walmart supply strategy is the use of distribution centers. According to its corporate website[22], in the United States alone, Walmart operates 158 distribution centers and private fleet of over 6,500 tractors and 55,000 trailers. The transportation savings through this system is incalculable. Imagine, Walmart wants company A, B, and C to send orders to stores X, Y, and Z. That's nine different shipping charges. Through the distribution center strategy, Walmart can order immense bulk quantities from companies A, B, and C, allowing them to get better discounts by ordering in bulk and shipping all the products to one distribution center. Then Walmart can divide up the bulk order according its needs and pay its own fleet of drivers to take the goods to stores X, Y, and Z. In this system, there are then only 6 different shipping costs. However, the total savings by Walmart well exceeds 33% because in reality, the shipments to stores X, Y, and Z contain hundreds or thousands of different products.

I have not found a situation where this distribution center strategy has not or would not be effective if implemented. However, the problem lies in developing a solution for business cultures that do not allow for the supply and distribution system to be implemented immediately, or ever. Also, Walmart must have enough units in a given market to warrant the cost of operating a distribution center in that country. These problems are why I consider it a strategy that must be partially localized and partially standardized. Also, there is the obvious need to localize the distribution center locations and even sometimes hire local shipping fleet companies.

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[22] http://careers.walmart.com/distribution-and-transportation-opportunities/

The company faced all of these issues when it entered the Mexican market. To start, local business practices dictated that suppliers ship directly to the retail units, not distribution centers. Then, poorly maintained roads caused major issues with delivery schedules. Finally, paying its US trucking fleet to deliver in Mexico would have been extremely costly and possibly even dangerous for truck drivers who didn't speak Spanish or know how to navigate safely in the country.

In Mexico, Walmart was able to change the supplier relationship to meet its distribution center needs. The signing of North Atlantic Free Trade Agreement (NAFTA) in 1994 (which narrowed the administrative/political distance between Mexico and the US) encouraged Mexico to invest in infrastructure. Walmart also formed a very beneficial partnership with a local fleet company, Transportes EASO SA. Within the distribution centers themselves, Walmart exploited the economic distance between the US and Mexico by using cheap manual labor instead of automation in its Mexican distribution centers (Luhnow 2011). Here Walmart was able to successfully use the standard strategy of distribution centers, but only after pieces of the strategy had been localized.

Walmart uses a total of 134 distribution centers outside of the US in the countries of Argentina, Brazil, Canada, Chile, China, Costa Rica, El Salvador, Guatemala, Honduras, Japan, Mexico, Nicaragua, Puerto Rico and the UK. Of these international distribution centers, Walmart outright owns and operates 34 units and leases and operates 38 units while the remaining distribution centers are owned by third parties (Roberts and Berg 2012). These international distribution centers are central to Walmart's operations. This is especially true in places like China, where Walmart buys a huge amount of goods to import to the US and other markets, while simultaneously operating retail units in the country.

Suppliers and Supplier Relations

Walmart has long been established as a global buyer. While Walmart continues to use suppliers from all over the globe, there are certain advantages to using local suppliers. Using local suppliers will cut down on transportation costs as well as produce a product localized to consumer preferences. In Mexico, over 85 percent of the merchandise sold in Walmart units comes from Mexican suppliers (Argen and Ogier 2011). The decision to use local versus international suppliers must consider many things. For Walmart, a company with the goal of lowest costs possible, the main question is "Which has lower total costs, more expensive transportation from China but lower production wages OR higher wages from a local supplier but lower transportation costs?" Also, there are products that may not even be produced in other countries that are popular consumer goods in a certain market, mandating the use of a local supplier. Therefore, the local versus international suppliers debate is itself something that must be evaluated on local terms.

The relationship that Walmart has with these suppliers is extremely standardized across all markets. The defining characteristic of this relationship is that the lowest cost is the main goal. Scholars and journalists always seem to be debating about Walmart's supplier relationship. Critics portray Walmart as a dictatorial buyer, demanding constantly lower prices and pushing suppliers to the edge of their capabilities (Dicker 2005, 26-27). Champions of Walmart claim that these demands on low costs are only helping Walmart by helping its customers. They also frequently cite instances when Walmart has helped supply companies evaluate their own strategies and improve efficiency (Agren and Ogier 2011).

Whether the relationship is "good" or "bad" is irrelevant here. What is important for this research is that the demand for low costs is standardized while the actual suppliers may be localized. The demand for lost cost is critical for implementing Walmart's "Every Day Low Prices" (EDLP) strategy (discussed below), which has been highly successful in many markets, especially Latin America.

## EDLP Strategy

Part of Walmart's image that has successfully maintained standardization with the domestic market is the emphasis on value. Walmart pioneered the "Every Day Low Prices" (EDLP) strategy in the US market, which is the company's main advantage in the retail market and main characteristic in its image. The idea is that instead of offering sales on different days for different products, Walmart attempts to have the lowest price everyday on everything, allowing customers to shop at their own convenience. This strategy is all but taken for granted now in the "United States of Wal-Mart" as the Walmart critic John Dicker calls it. While overall, the EDLP strategy has been successful in some international markets, the implementation of the policy has rarely been smooth.

In many countries, implementing this strategy was very difficult because of differences in consumer culture. Shoppers in many countries were accustomed to searching ads and finding the lowest price and did not see doing so as a hassle. Also, the lack of weekly sale ads often meant Walmart missed the most viewed type of advertisement. Walmart had to navigate these existing consumer cultures while simultaneously trying to change them. In Mexico and Brazil, the company has largely been able to change consumer culture to accept the EDLP strategy. In contrast, Walmart has failed to change the consumer culture in Japan where higher incomes mean that shoppers are more willing to trade convenience for price (Aoyama 2011) and have the tendency to equate lower prices with lower quality (Boyle 2009).

Planet Retail correspondent Natalie Berg says that two things must be true for EDLP to work in a market. One of these, not surprisingly, is that Walmart must actually be consistently cheaper than the competition. In Chapter V, I partially dispute this idea, but her claim does have supporting evidence. In Germany, a highly saturated market combined with legal restrictions that increase operating costs prevented Walmart from actually having the lowest prices and therefore, its main advantage as a retailer was lost (Aoyama 2011). Aoyama also says that similar problems existed in Japan where the company was consistently unable to actually have the lowest price. Consequently, any percentage of Japanese that were extremely cost conscious, regardless of their ideas about quality, were also lost to Walmart.

The EDLP strategy is an interesting twist in the localization/standardization paradox. Usually, a retail TNC will standardize almost everything and then localize what is necessary. EDLP breaks this trend because it is a standardized strategy that cannot be implemented until supply and distribution strategies have been localized. In order to offer EDLP, the company must first be able to maintain "Every Day Lost Costs" (EDLC) (Berg March 2011). This means having and maintaining effective transportation and distribution strategies, finding reliable suppliers, and eliminating all none-value adding parts of its operations. EDLP and EDLC are almost a paradox in themselves. The company must be fairly established to implement EDLP but EDLP is the company's main advantage in the retail market.

## Conclusion

Information technologies, the use distribution centers, the suppliers and supplier relationships are all standardized strategies that do not have direct contact with the consumer (i.e. are back-end operations) and are very effective in cost efficiency, as Aoyama (2007) suggests. However, upon closer inspection it is apparent that these strategies cannot be identically replicated in new markets and must localize to considerations of geography and accepted business practices. Similarly, the EDLP strategy does have direct contact with the consumer, but it too must be localized in a way that addresses existing pricing techniques in a market and relies heavily on the localization of operations that do not have direct contact with the consumer.

## Chapter V: Aspects of Standardization

### Go Big or Go Home

The only aspect that has consistently shown to be an effective standardized strategy is what I call Walmart's "Go Big or Go Home" strategy. The idea is simple: Walmart does better in places where it operates the most retail units. This seems obvious, but in some markets, like Argentina, the company hasn't made much effort in growing its brands. After 18 years in Argentina, the same amount of time the company has been in Brazil, Walmart still does not constitute a powerful presence in the retail market because it only operates 94 units.

The Brazilian case is a great example of how increasing number of units will inevitably increase market share. Walmart struggled for almost a decade in Brazil and had only opened 25 units until the 2004 acquisitions. The acquisitions of 118 Bompreço stores and 140 Sonae stores instantly catapulted the retailer to the number one spot in Brazil in terms of sales. Looking at the Walmart unit to person ratio in different markets, countries with lower ratios are also the more successful markets. The following ratios are country populations according to the CIA World Factbook[23] divided by units in a country according to "Our Locations" on Walmart's Corporate website: US 1 store: 68,291 people, Mexico 1:49,392, Canada 1:91,209, and UK 1:112,006 as opposed to Brazil 1:360,232; China 1:343,406, Argentina 1:453,308 and Japan 1:290,532. These statistics indicate that Brazil is still on the less successful end of the spectrum, but the country has

[23] https://www.cia.gov/library/publications/the-world-factbook/geos/ci.html

only been targeted for growtin the last five to seven years. The ratio in the country has continually shrunk while Walmart's market share has increased. While the country is not yet the success story of Mexico, Canada, or the UK, it is on track to match the success in these market.

Having more stores obviously means that a company can serve more customers. However, the research has shown that operating more units is also critical to Walmart's back end operations. By operating hundreds of units in a market, Walmart is able to create economies of scale with its suppliers and its distribution strategies. For example, if every unit in Argentina needs 1,000 of product X, Walmart will place a combined order of 94,000 pieces. However, in Brazil, if every unit needs 1,000 of product X, Walmart will place a combined order of 558,000 pieces, inevitably getting a better price per piece. Better per piece prices increase the company's profits on an item, as well as allows the company to implement the EDLP strategy.

In contrast to Natalie Berg's claims, a low ratio of people to stores can compensate for not always having the lowest prices. According to a report by Matt Townsend and David Welch at Bloomberg Industries[24], Target actually had lower prices than Walmart in the latter part of 2012. Even if Target, doesn't consistently have lower prices than Walmart, it does consistently have the same or extremely close pricing. So why does Walmart command so much more of market share in the US than Target does? The answer is simply that Walmart has more stores. According to their corporate websites, Target operates only 1,682 units in the US (Target "Fast Facts"[25]) while

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[24] http://www.bloomberg.com/news/2012-08-23/target-cheaper-than-wal-mart-as-gap-widest-in-two-years.html
[25] http://pressroom.target.com/news/fastfacts

Walmart operates 4,637 (Walmart "Our Locations"). Even in Florida and California, the two states where Target operates the most units, Walmart still operates more (177 more in Florida and 14 more in California). Graham and Zook (2006) mapped data from the 2000 census with the geographic coverage of Walmart and revealed some astonishing statistics. 60 percent of the US population lives within just 5 miles of a Walmart store and over 95 percent of the population lives within 20 miles. With numbers like this, Target could consistently undercut Walmart prices and still not be able to significantly reduce its opponent's market share, until it invests heavily in new units.

This "Go Big or Go Home," strategy has resulted in Walmart dominating the domestic retail market. The approach has also been effective in Mexico and is improving the retailer's position in Brazil. Ethical arguments about monopolies aside, this strategy is a profitable approach in all markets.

## Conclusion

According to the case studies and examples analyzed in this research, a effective resolution for the structural paradox of retail TNCs will lean extremely toward the localized end of the localization/standardization spectrum. As the theories of store image and cultural distance suggest, a high level of front-end operation localization is necessary to gain customer acceptance. However, extremely or entirely localized units have proven to be the most successful for Walmart in Latin America, as well as in other international markets like the UK. Also, business aspects that do not have direct contact with the consumers, like upper management and back-end management strategies, must also be localized in order to operate efficiently in host markets. Finally, this research shows that even in the dimensions of a business where general strategies are effectively standardized, various pieces of these strategies must be localized.

Many argue that Walmart is the best-positioned retail TNC in the global market. Using the theory of the CAGE distances and the company's previous successes and failures in the global market, there are several markets in which Walmart has a high chance of success and several markets the company should avoid. Considering its current position in the global market, the primary goal of the Walmart should be to continue to grow and strengthen its dominance in the Latin American region. Its position in Brazil is continually improving and Walmart needs to widen these efforts to Argentina and Chile. Because Walmart has developed a strategy for dealing with the cultural distances in Latin America, the small geographic distances between Brazil, Chile and Argentina can only aid expansion efforts. If the company were seeking completely new markets to enter, I would recommend Panama. According to Joachim Bamrud at Latin Trade[26], the country ranks best in five out of nine benchmarks evaluated by the article, including business environment, entrepreneur environment, globalization level, infrastructure level, and technology level. Panama also neighbors existing Walmart de México y Centroamérica markets, which further lessens problems with geographic distance.

In contrast, Walmart should also stay away from the Russian market. According to Transparency International, Russia ranks the 133th most corrupt country out of the 176 evaluated countries. Because Walmart has to answer to US laws concerning international corruption, this market is extremely unappealing. Mexico only ranked 105th and the company was unable to avoid problems there. Also, the large size of the country means creating economies of scales in Russia would be very difficult.

Expansion in China, while very far in terms of the four business distances, does have its appeals. The country offers a very large population and China is already a main supplier of Walmart, so the company is used to navigating administrative distances. My suggestion would be to focus heavily on small-format stores in densely populated areas. Tensions between North Korea, China and the US should also be carefully evaluated before investing enormous amounts of capital in the market. If some catastrophic conflict did arise, the company would lose an important supplier and at the same time, an important market.

My suggestions for areas of expansion only take into account the theories and considerations developed in my research. Explorations into political and legal barriers to

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26 http://latintrade.com/2012/05/benchmarking-in-latin-america

success must also be conducted in order to fully develop a successful strategy for a specific international market. Ultimately, the success of Walmart in the international market will depend on the ability of the company to quickly realize and learn from mistakes.

Another reservation about this research is the limited focus of its case studies. In this work, the emphasis is on retail TNCs that take the form of grocers, department stores or a mix of the two types of retailers. However, there are retail TNCs that are themselves a name brand, including the popular clothing store H&M, the home goods store IKEA, and the electronics giant Apple. In my literature review, I argue that retail TNCs require quicker and deeper localization than product-based or brand-based TNCs. This is problematic because some of the conclusions in this research may not be applicable to retail TNCs, like the examples above, because they are also brand-based TNCs.

By analyzing the CAGE distances and their effects on the structural paradox of retail TNCs, international retailers can better evaluate the risks of a new market and create more effective business plans. Walmart's international endeavors provide many examples of successful and unsuccessful procedures in a foreign market. Unfortunately for the company, its progress was mitigated by losses through the process of trial and error. Other retail TNCs will benefit greatly by acknowledging the difficulties of the structural paradox of retail TNCs and learning from Walmart, the company around which many international retailing theories were developed.

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